

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6242**

**BILL NUMBER:** SB 326

**NOTE PREPARED:** Jan 3, 2012

**BILL AMENDED:**

**SUBJECT:** State Income Tax Rate Adjustment.

**FIRST AUTHOR:** Sen. Buck

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ **GENERAL**  
☐ **DEDICATED**  
☐ **FEDERAL**

**IMPACT:** State

**Summary of Legislation:** The bill provides for a biennial reduction of 0.1% in the state adjusted gross income tax rate on residents, nonresidents, and corporations if the Budget Agency determines that year-over-year revenue from the adjusted gross income tax exceeds 3.1%. It provides that the minimum rate is 2.9% for individual taxpayers and 6% for corporate taxpayers. It requires the Budget Agency to make the determination before September 1 of each even-numbered year and for the rate reduction to take effect for taxable years beginning in the immediately following odd-numbered year. It also requires the Department of State Revenue to publish a statement of the rates in the *Indiana Register* and on the Department's web site and make the statement available for public inspection and copying.

**Effective Date:** July 1, 2012.

**Explanation of State Expenditures:**

**Explanation of State Revenues:** *Summary:* It is estimated that the bill would lead to permanent rate reductions of 0.1% on the individual adjusted gross income (AGI) tax and the corporate AGI tax beginning in CY 2013. The estimated revenue loss from these rate reductions in FY 2013 and FY 2014 is reported in the table below.

<b>Fiscal Year</b>	<b>Individual AGI Tax (millions of dollars)</b>	<b>Corporate AGI Tax (millions of dollars)</b>	<b>Total (millions of dollars)</b>
2013	(69.7)	(5.2)	(74.9)
2014	(144.7)	(5.3)	(150.0)

**Background Information:** The bill would permanently reduce both the individual AGI tax rate and the corporate AGI tax rate by 0.1% if the combined revenue from both taxes is determined to have grown by at least 3.1% over a two-year period. Under the bill, the State Budget Agency is required to determine the two-year average growth rate for the combined net revenue (after refunds) from both taxes. The determination must be made by September 1<sup>st</sup> of each even-numbered year. The determination requirement begins in 2012.

The two-year average growth rate must be based on calendar year revenue from each tax during the three years prior to the even-numbered year in which the determination is made. This means the 2012 determination would be based on revenue growth from 2009 to 2011. In the event that revenue growth determined by the State Budget Agency is at least 3.1%, the tax rate reduction would begin during the immediately following odd-numbered year - this would be 2013 for the 2012 growth rate determination. Determinations would once again be made by September 1<sup>st</sup> of 2014, based on the two-year average growth from 2011 to 2013. Any rate reductions based on this determination would begin in 2015. The procedure would continue on this two-year determination cycle thereafter.

The bill establishes a minimum rate for each tax, with the minimum for the individual AGI tax set at 2.9% and the minimum for the corporate AGI tax set at 6%. The current individual AGI tax rate is 3.4%. The current corporate AGI tax rate is 8.5% but is scheduled to be reduced to 6.5% over four years (0.5% per year) from FY 2013 to FY 2016.

It is estimated that the combined net revenue from the individual AGI tax and the corporate AGI tax grew by almost 7% during the 2009-2011 period. The growth rate would require a reduction of 0.1% off the existing individual AGI tax rate and the existing corporate AGI tax rate beginning in 2013.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** State Budget Agency; Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** Revenue Technical Committee Forecast (December 14, 2011).

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